Fargo Oils Ltd.

1967 SEVENTEENTH ANNUAL REPORT

DIRECTORS

BERT V. RICHARDSON, Q.C. .... Victoria, B.C.
Counsel, Richardson, Taylor, Huband, Wright & Kehler

*JOHN R. MCMILLAN .... Los Angeles, Calif.
President, Reserve Oil and Gas Company

*NEWTON T. BASS .... Apple Valley, Calif.
Chairman of the Board, Reserve Oil and Gas Company

*MARCO F. HELLMAN .... San Francisco, Calif.
Senior Partner, J. Barth & Company

*HOWARD C. PYLE .... Los Angeles, Calif.
Director, Petroleum Investments

H. LYLE JESTLEY .... Vancouver, B.C.
Senior Partner, Jestley, Kirstiuk, White & Jones

MACLEAN E. JONES .... Calgary, Alberta
Partner, Chambers, Saucier, Jones, Peacock, Black, Gain & Stratton

*Member of the Executive Committee.

OFFICERS

BERT V. RICHARDSON, Q.C. .... *Chairman of the Board*
NEWTON T. BASS .... *Chairman of the Executive Committee*
JOHN R. MCMILLAN .... *President*
PAUL D. MEADOWS .... *Executive Vice-President*
RUSSELL E. DERTELL .... *Vice-President and General Manager*
DAVID W. TALBOT .... *Vice-President and Secretary-Treasurer*
HAROLD F. GREEN .... *Assistant Secretary-Treasurer*
DONNA G. MCKECHNIE .... *Assistant Secretary-Treasurer*
JOHN N. PINGREE .... *Assistant Secretary-Treasurer*

CORPORATE INFORMATION

INCORPORATED	*Alberta, November 20, 1950*
EXECUTIVE OFFICES	*550 South Flower Street, Los Angeles, California*
GENERAL OFFICES	*630 - 6th Avenue S.W., Calgary, Alberta*
REGISTRAR AND TRANSFER AGENT	*Guaranty Trust Company of Canada, Calgary, Alberta*
CO-TRANSFER AGENTS	*Guaranty Trust Company of Canada, Toronto, Vancouver* *The Royal Bank of Canada Trust Co., New York, N.Y.*
SHARES LISTED	*American Stock Exchange, New York* *Pacific Coast Stock Exchange, San Francisco* *Toronto Stock Exchange, Toronto* *Vancouver Stock Exchange, Vancouver*
AUDITORS	*Peat, Marwick, Mitchell & Co., Calgary*

Fargo OILS LTD.

The Annual Meeting of the Shareholders will be held at 11:00 a.m. on Tuesday, April 30, 1968 at 630 - 6th Avenue S.W., Calgary, Alberta.

17th Annual Report 1967

HIGHLIGHTS

FINANCIAL	1967	1966
Gross Income	**$3,689,331**	$3,328,410
Net Income	**$ 941,764**	$ 821,548
Cash Flow	**$2,109,286**	$1,906,402
Working Capital	**$ 724,626**	$ 404,271
Capital Expenditures	**$3,114,317**	$1,981,752
Shares Outstanding	**8,519,682**	8,505,323
OPERATING		
Oil and Gas Liquids Sales — Net Barrels	**1,563,204**	1,479,785
Daily Average	**4,282**	4,054
Gas Sales — Net Mcfs	**3,049,742**	2,725,004
Daily Average	**8,355**	7,466
Wells Drilled — Net	**24**	23
Wells Owned — Net	**313**	293

COVER

An artist's conception of a completed stockpile of sulphur at the East Crossfield Sour Gas Plant, and the remains of a pile which has been almost depleted by shipments to market.

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THE PRESIDENT'S LETTER

To the Shareholders:

1967 was a year of signal accomplishment for the Company. In addition to reaching new record levels in financial results, the Company moved into a new mineral activity — the extraction of sulphur from sour gas, which is anticipated to be highly profitable in 1968 and ensuing years.

Gross income in 1967 increased by 10.8 per cent to $3,689,331. Cash flow of $2,109,286 reflected a 10.6 per cent increase over 1966. Net earnings increased 14.6 per cent to $941,764, as compared to $821,548 in 1966. Fargo ended the year in a sound financial position.

The results of 1967 operations are particularly gratifying in view of the fact that 73 per cent of the Company's total expenditures for development of its properties went into construction of the East Crossfield Sulphur Plant and development wells in the East Crossfield area. Income will be realized from these investments for the first time in 1968.

The Company's participation in the East Crossfield Sulphur Plant represents a new business phase for Fargo. The plant will extract sulphur from sour gas produced from the East Crossfield unit. After initial unit determinations were made in this field, additional development drilling in the area resulted in the enlargement of the productive area of the D-1 sour gas reservoir and lands committed to the unit. After final unit participation is determined, Fargo will have an approximate 8.1 per cent interest in an expanded unit and in the sulphur plant. Present design-capacity of the plant is 1,480 tons per day. However, an increase in plant capacity is contemplated in order to process additional sour gas reserves developed during 1967. Fargo's share of sulphur from the plant has been committed for sale under a three-year contract at favorable prices. A material increase in Fargo's income in 1968 and thereafter is anticipated as a result of this new venture.

In September of 1967 Reserve Oil and Gas Company acquired all of the shares of Fargo owned by General American Oil Company of Texas. This acquisition consisted of 2,310,626 shares, representing 27.1 per cent of the outstanding shares of Fargo. Following this purchase, four of the seven members of the Board of Directors of Fargo resigned, and Messrs. John R. McMillan, Newton T. Bass, Marco F. Hellman and Howard C. Pyle, all Directors of Reserve, were elected to the Fargo Board.

Reserve Oil and Gas Company is a California corporation with executive offices located in Los Angeles. The Company's business consists primarily of oil and gas operations and real property development. Reserve was incorporated in 1932 and for many years was engaged solely in exploration for and

development of oil and gas, primarily in California. Since 1963 the Company has substantially expanded its natural resources interests and now operates in many states and in Canada. It has also diversified into other fields of operation, including residential and commercial land development, chemicals and industrial warehousing. At year-end 1967 its book assets were in excess of $45,000,000.

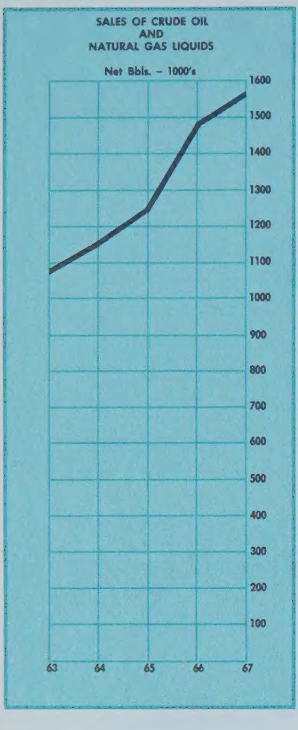
Oil and gas, and sulphur, are all part of a growing mineral exploration and development industry in Canada. Fargo, as an independent oil and gas producing company with substantial undeveloped landholdings in Western Canada, is in a favorable position to participate in the continually expanding exploration and development activity which is particularly extensive in the Western provinces. The results achieved by Fargo up to now have provided a sound basis for increased and more widespread activities by the Company in 1968 and succeeding years.

The Directors wish to thank the shareholders for their continued confidence in the Company, and also wish to express their appreciation to the employees for their efficient and dedicated efforts.

John R. McMillan

JOHN R. MCMILLAN,
President.

East Crossfield Sulphur Plant



OPERATIONS

DRILLING

During 1967 Fargo participated in the drilling of 49 wells (24 net), exclusive of unit wells, resulting in the completion of 25 oil wells, five gas wells and 19 dry holes. In addition, the Company participated in six successful D-1 gas wells in the East Crossfield unit and an extensive development program in the Aberfeldy unit where the Company holds a minor interest.

Development drilling in the Inga field and exploratory operations in the surrounding Blueberry area of northeast British Columbia, accounted for 17 wells of which eight were completed as oil wells and two as gas wells. Two exploratory wells were drilled on other Company properties in northeast British Columbia at no cost to the Company, which resulted in one Triassic gas well and one dry hole.

The Company participated in the drilling of 14 wells in the Lloydminster heavy-oil area of west-central Saskatchewan which resulted in the completion of 10 oil wells and one gas well.

Fargo drilled two wells adjacent to the East Crossfield unit, one of which proved up substantial reserves in both the Elkton and D-1 reservoirs.

PRODUCTION

During 1967, the Company recorded an increase in oil and gas production. Oil and natural gas liquid sales averaged 4,282 barrels per day for an increase of 5.6 per cent over that recorded in 1966. Natural gas sales of 8,355 Mcf per day were up 12 per cent over sales in the previous year.

Deep-cut facilities to recover increased propane and butane fractions were installed at the Carstairs plant serving the Crossfield-Turner Valley unit. This installation contributed to a 31 per cent increase in revenue derived from the sale of the Company's natural gas liquids. Similar deep-cut facilities installed at the Sylvan Lake plant late in 1967 are expected to provide further revenue increases during the current year.

The East Crossfield Sulphur Plant, in which the Company owns an approximate 8.1 per cent interest, was placed on stream on February 5, 1968, following a number of unavoidable construction delays and is expected to be on full production by mid-April 1968.

LAND

At the year-end Fargo held an interest in 2,174,874 gross acres in Western Canada, for a net interest of 677,616 acres. This represents a decrease of 88,971 net acres for the year. Petroleum and natural gas leases comprising 48,507 acres located in the Fort Nelson area of British Columbia, were surrendered on the basis of seismic evaluation. The Company surrendered 24,266 net permit acres in central Saskatchewan following an unsuccessful Winnipegosis test in this area. The surrender of these properties constituted the bulk of the land relinquished by the Company during the year. The balance was comprised of the surrender of scattered leases in Alberta and Saskatchewan and the conversion of a Saskatchewan and an Alberta permit to lease during the year.

The Company participated in the acquisition of an 8,423-acre drilling reservation in the Blueberry area of British Columbia and a 7,200-acre drilling reservation in the Bruce Lake area of north-central Alberta. Other selected leases were acquired in Alberta, Saskatchewan and Manitoba during the year.

BRITISH COLUMBIA

Development drilling continued in the large, stratigraphic oil pool discovered in 1965 in the Inga area of northeast British Columbia. During 1967 the Company participated in the drilling of 13 wells in this area including one successful exploratory well in what is now known as the South Inga pool. Of the 13 wells drilled, eight were completed as oil wells and one as a shut-in gas well. At year-end the Company held interests ranging from 10.8 per cent to 21.67 per cent in 17 oil wells and two gas wells in the Inga field.

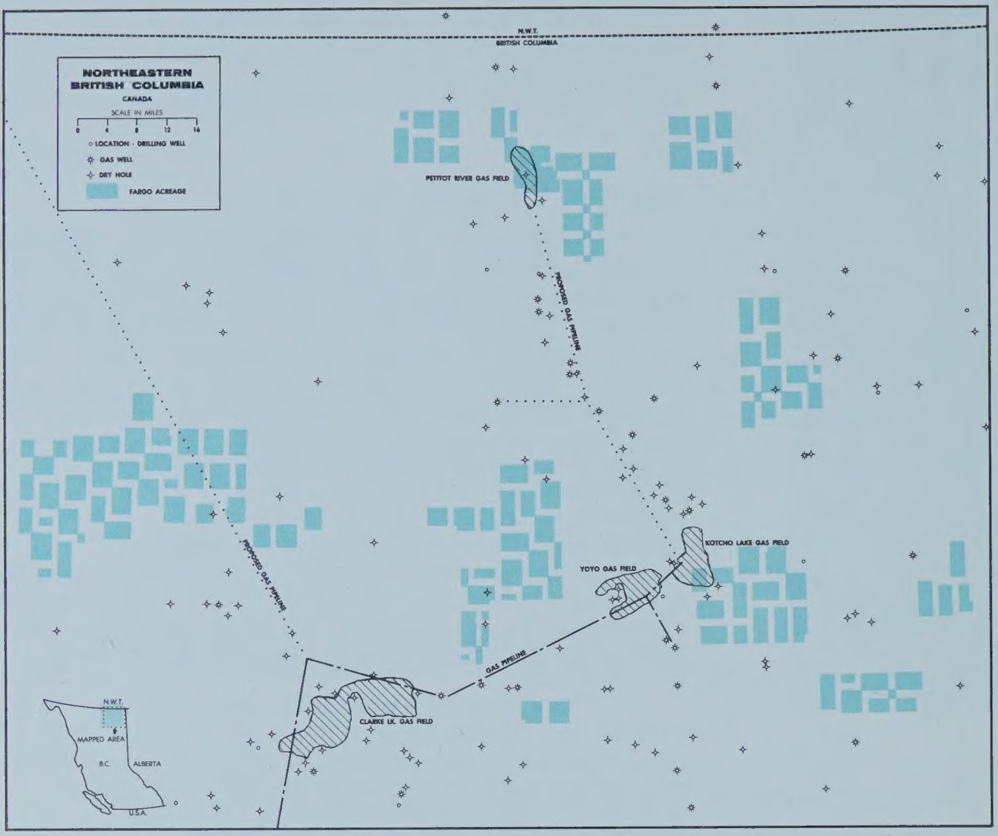
The Company owns a 21.67 per cent interest in British Columbia Oil Transmission Co. Ltd. which owns and operates a 72-mile pipeline transporting produced crude oil from the Aitken Creek, Blueberry and Inga Fields to connecting pipelines serving West Coast refineries. B.C.O.T. plans to extend its facilities during 1968 in order to transport produced oil from the recently developed South Inga pool. Pipeline throughput for the year averaged 4,417 barrels per day as compared to 3,351 barrels per day in 1966, and a further increase in throughput rate is expected during 1968.

The Company participated in the drilling of three exploratory wells as tests of the Triassic formation on its extensive land holdings in the Blueberry area, resulting in one Cadomin gas discovery and two dry holes. On the basis of exploration work conducted in this area during 1967, Fargo acquired an interest in an 8,423-acre drilling reservation which the Company, together with the other interest owners, plans to evaluate in 1968.

An exploratory well was drilled on a 5,000-acre lease in the Beatton River area of northeast British Columbia in which the Company owns a 10 per cent carried interest. This well was completed as a gas discovery in both the Triassic and Detrital formations and has been shut-in pending development of a gas market outlet.

In 1966, Westcoast Transmission Co. entered into an agreement with El Paso Natural Gas for the sale from northeast British Columbia of an additional 600 million cubic feet of natural gas per day to be attained over a four-year period. As a result of this agreement Westcoast's facilities were extended by the construction during 1967 of a 48 mile, 24 inch diameter pipeline from the Clarke Lake field to serve the Yoyo, Kotcho and Sierra fields. Initial production from these recently connected fields was scheduled to commence November 1, 1967, but was delayed pending approval of additional gas exports by the appropriate government agencies. This approval has now been cleared authorizing the export of an additional 200 million cubic feet per day into the Pacific Northwest area of the United States.

At year-end the Company held interests in 1,015,747 gross acres (304,768 net) in northeast British Columbia, of which 564,495 gross and 215,825 net were in the general Fort Nelson area. The Company owns a 45 per cent carried interest in one shut-in gas well in the Kotcho Lake field and also owns substantial shut-in gas reserves in the Petitot River field located some 60 miles north of Kotcho Lake. The Kotcho Lake field will be connected to Westcoast's recent pipeline extension and the Petitot River field will be served by the next major northward extension of Westcoast's pipeline facilities.



Exploratory operations have been curtailed in the northeast British Columbia area for several years pending the development of markets for existing shut-in gas reserves. With the completion of Westcoast's pipeline extension to serve a larger area and recent encouraging prospects for Middle Devonian oil production, the exploration tempo has increased. The sale of additional gas will add further impetus to drilling and exploration in northeast British Columbia. Fargo, by virtue of its strong land position in northeast British Columbia, is expected to share in the benefits from this exploration activity.

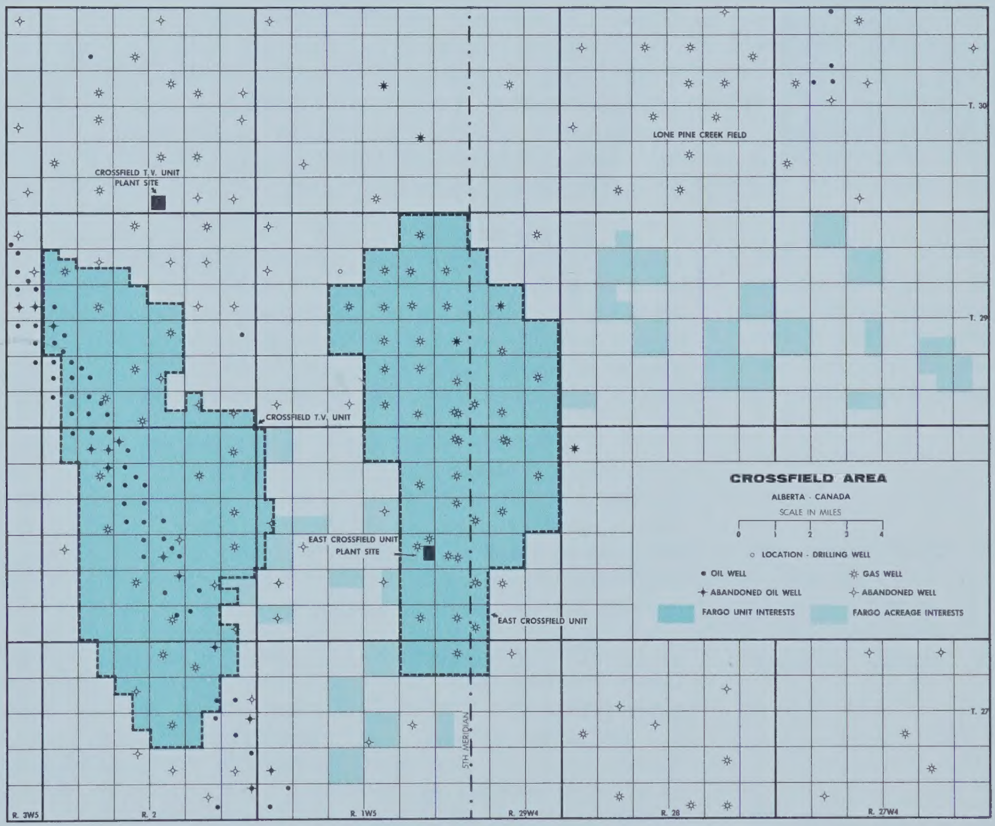
ALBERTA

One of the most significant single events in the Company's history has been its participation in the construction of a large sulphur plant and the development of substantial sour gas reserves in the East Crossfield area of Alberta. Of the $3,018,216 spent in the development of the Company's properties during 1967, the major portion, $1,848,000 went toward the construction of the East Crossfield Sulphur Plant and gathering system and an additional $350,000 was expended for drilling operations in the area.

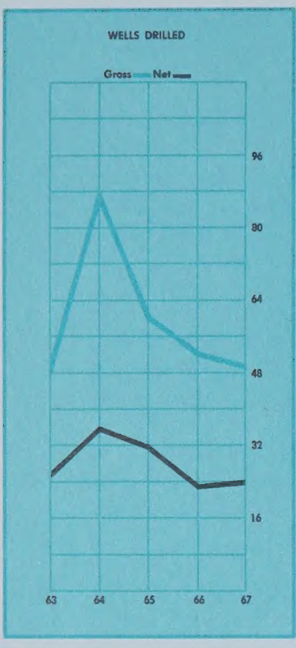
In development of sour gas reserves, Fargo participated in the drilling of six successful D-1 gas wells in the East Crossfield unit during the year. In addition, the Company participated in the drilling of two wells adjacent to the unit area. One of these wells, in which the Company owns a 50 per cent interest, resulted in the completion of a dual gas well in the D-1 and Elkton

formations, with net productive pay intervals in excess of 50 feet for each zone. The other well encountered a relatively tight non-commercial D-1 section and was abandoned.

Based on the Company's anticipated interest in sour gas reserves to be developed in the East Crossfield D-1 reservoir, Fargo nominated for and has paid plant construction costs representing a 9.4 per cent interest in the sulphur plant. Development drilling activity by Fargo and other companies in the area during 1967 resulted in the enlargement of the productive area of the D-1 sour gas reservoir and the inclusion of additional lands in the East Crossfield unit. As a result, additional sour gas reserves were developed and the productive capacity of the wells completed in the D-1 reservoir now exceeds the raw gas design-capacity of the sulphur plant. The Company's 9.4 per cent plant participation and investment will be adjusted to coincide with its interests in the expanded East Crossfield D-1 unit, which will be approximately 8.1 per cent.



Fargo's share of the sulphur to be produced from the plant has been committed for sale under a three year contract at favorable prices. The contract provides for establishment of a letter of credit in an amount approximately equivalent to the Company's projected annual sulphur sales. This letter of credit must be maintained by the purchaser throughout the contract term. A major increase in income is projected for Fargo in 1968 and ensuing years as a result of sulphur sales from this plant.



The Company owns a 100 per cent interest in 9,280 acres immediately east of the East Crossfield unit. These lands are located approximately 1½ miles south of production recently established in the Lone Pine Creek D-1 sour gas field. Fargo also holds 2,560 net acres immediately south of the East Crossfield unit, which have the potential for additional sour gas reserves.

Other drilling operations conducted by the Company in Alberta during the year include two development wells on lands in the Medicine River area in which the Company owns a 62½ per cent interest. These wells were completed as Glauconitic oil wells.

An exploratory well was drilled and completed for Sparky production in the Lloydminster area of Alberta and follow-up development wells are programmed for 1968.

An exploratory well drilled as a Basal Quartz test in the Alderson area on 4,144 gross acres obtained by farmout failed to encounter commercial production. These lands were subsequently farmed out for a second exploratory test which was also unsuccessful.

The Company farmed out an 87½ per cent interest in 2,720 gross acres in the Bruce Lake area of north-central Alberta to a major company for a basement test. The test well was drilled and abandoned. A 7,200-acre drilling reservation was acquired however by the farmee and, pursuant to the terms of the farmout, Fargo exercised its option to be carried for a 7½ per cent interest in the acquired reservation lands.

Fargo owns a 30 per cent interest in 20 sections comprising 12,800 acres in the Nanton area. The Company together with its partners, granted an option on 7¾ sections out of the 20 sections for a D-1 exploratory test on adjoining lands. The exploratory well was drilled and abandoned and the option terminated. However, interest in the area has continued, in large part due to shows encountered in the exploratory test well, and the Company expects that a follow-up well will be drilled on the 20-section block during 1968.

Production from the Condor Gas unit in which Fargo owns a 35.3 per cent interest commenced on November 1, 1967. The unit owners have contracted for the sale of 51.7 billion cubic feet of gas reserves from the unit. The Company retained 62½ per cent in the liquids from one well in this pool which has been authorized for concurrent production of oil and gas. This well is presently producing 2.5 million cubic feet of gas per day and in excess of 100 barrels per day of liquids.

Deep-cut facilities were installed at the Carstairs plant to recover additional propane and butane fractions from the produced wet gas stream. This plant serves the Crossfield-Turner Valley unit in which the Company owns a 2.2 per cent interest. The installation of these deep-cut facilities contributed largely to a 31 per cent increase in revenues derived from the sale of the Company's natural gas liquids in 1967. Similar facilities were installed at the Sylvan Lake gas plant late in 1967. The benefits of these facilities are expected to provide increased income in 1968 and subsequent years.

SASKATCHEWAN

The centre of the Company's activity in Saskatchewan continues to be in the heavy-oil producing area of Lloydminster where the Company has an interest in 171 wells. During the year Fargo drilled 14 wells in this area, resulting in nine oil wells, one gas well and four dry holes. Three exploratory slim holes were also drilled by the Company in the general area to evaluate other undeveloped land holdings.

Most of the Company's drilling activity in the Lloydminster area occurred in a new pool area adjacent to the Aberfeldy unit. The Company now has nine producing wells in this pool and plans are in progress to install and operate a secondary recovery program by water injection during 1968. The Company owns a 1.6 per cent working interest in the Aberfeldy Unit encompassing 12,280 gross acres, where 37 oil wells, seven water injectors and one dry hole were drilled during the year.

In September 1967 the South Epping Unit, in which the Company owns a 52 per cent interest and is unit operator, was enlarged to include 13 additional wells. At year-end the unit contained 88 producing wells and 13 water injection wells. Secondary recovery operations by water injection were initiated in the north half of the unit in 1966 and good response to the injection program has been obtained. The unit's daily production rate of 1,479 barrels in December 1966 increased to 1,948 barrels at the end of 1967. Plans are underway to expand the flood program to include the south half of the unit area during 1968.

Fargo participated in two exploratory wells in other areas of Saskatchewan during the year. One well was drilled in the North Manor area of southeast Saskatchewan and the other in the Battle Creek area of southwest Saskatchewan. A recent exploratory well drilled by another company in the Battle Creek area encountered encouraging shows in the Mississippian and Jurassic formations. Although the two wells drilled by the Company were dry, an interest in additional acreage was earned in a prospective area where the Company plans further exploratory activity.

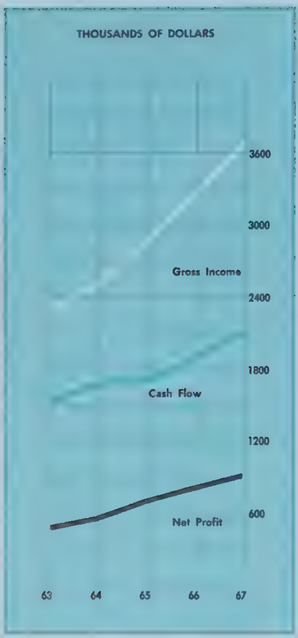
Fargo's net acreage position in Saskatchewan was reduced by 35,749 acres, primarily due to the surrender of the Company's one-third interest in a 72,800-acre permit located in the Prince Albert area. This surrender followed the drilling of an unsuccessful Winnipegosis test on the properties during 1966. Other factors in the acreage reduction were the conversion of a permit in the Lloydminster area to lease and the surrender of scattered freehold leases in other areas.

MANITOBA

The Company continued its active participation in the development of Mississippian reserves in Manitoba. Fargo participated in five wells in the South Routledge area resulting in four oil wells and one dry hole. Fargo also drilled an exploratory well in the South Maples area which was completed for oil production and was subsequently suspended due to a substantial increase in water-cut.

NORTHWEST TERRITORIES

Late in 1967 Panarctic Oils Ltd. completed its financing for a 20 million dollar exploration program on 44 million acres in the Arctic Islands. Fargo has committed its interest ranging from 25 to 50 per cent in approximately 400,000 acres to the project which is scheduled to commence immediately and to be completed over a four year period at no cost to the Company. Panarctic may earn a 28.3 per cent interest in the committed lands by the expenditure of $8,500,000 on the project. This interest may be increased to 85 per cent by the expenditure of a total of 30 million dollars during the contract period. The Company has retained its direct working interest in an additional 100,736 gross acres located on Melville Island in the Northwest Territories.



FINANCIAL

Increased oil sales at Lloydminster and Inga, and gas and liquid sales from the Crossfield units, resulted in a 10.8% increase in gross income. Cash flow increased 10.6% although operating, general and administrative and interest expenses, in total, were up 12% for the year. A substantial increase in dry hole costs was partially offset by a reduction in depletion and depreciation charges. Net profit increased 14.6% to $941,764.

Expenditures on exploration and development reached a record $3,018,216 for 1967. Construction of the sulphur plant and gas gathering system, and the drilling of related gas wells at East Crossfield, accounted for $2,198,000 (72.8%) of the total expenditures. Sulphur sales from these properties are expected to add approximately one million dollars to the Company's gross income for 1968.

Additional drilling for heavy crude at Lloydminster required $275,000 (9.1%). Expenditures in the Blueberry-Inga area, which have been minor since 1963, increased to $230,000 (7.6%) in 1967. Deep-cut facilities were installed at plants in the Sylvan Lake and Crossfield areas to increase the amount of liquids recovered from the natural gas processed. Fargo's share of these facilities was $182,000 (6.1%). The remaining $133,216 (4.4%) was spent on wells drilled in areas scattered throughout Western Canada.

During 1967, British Columbia Oil Transmission Company purchased at face value, $360,000 of its debentures which were held by Fargo. Fargo owns 21.67% of B.C.O.T. and these debentures were acquired in 1962 to assist in the financing of an oil transmission line to serve the Blueberry area.

The Company obtained production loans totalling $2,525,000 during 1967. The East Crossfield sulphur program required $2,198,000 of this amount. Payments made on principal during 1967 of $1,122,000 were approximately the same as in 1966.

Production payments, which have been used to finance development of the Company's properties, have increased steadily since 1963 to a principal balance of $5,988,505 at December 31, 1967. With the additional income projected from sulphur sales in 1968 and ensuing years, this production payment balance is expected to be retired by early 1970.

The decrease in depletion and depreciation expense for the year is the result of an increase in the Company's proved reserves as determined by independent engineering studies completed at year-end. Development drilling, improved production performance and satisfactory response of several secondary recovery operations have contributed to the increases in proved reserves.

FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for the year ended December 31, 1966)

	1967	1966
WORKING CAPITAL — beginning of year	**$ 404,271**	$ 526,691
SOURCE OF FUNDS		
Net profit	**$ 941,764**	$ 821,548
Depletion, depreciation and other non cash items	**820,578**	868,791
Net cash from operations	**1,762,342**	1,690,339
Proceeds on sale of investments	**360,573**	—
Proceeds on disposal of fixed assets	**29,144**	28,275
Sale of shares (Employees' stock option)	**14,359**	7,970
Production loans received	**2,525,000**	1,390,000
	$4,691,418	$3,116,584
APPLICATION OF FUNDS		
Acquisition of properties	**$ 29,131**	$ 442,506
Development of properties	**3,018,216**	1,388,174
Other equipment	**66,970**	151,072
Payment of principal on production loans	**1,121,946**	1,122,452
Payment of principal on notes payable	**134,800**	134,800
	$4,371,063	$3,239,004
WORKING CAPITAL — end of year	**$ 724,626**	$ 404,271
Represented by:		
Current assets	**$1,240,693**	$ 866,453
Current liabilities	**516,067**	462,182
	$ 724,626	$ 404,271

(In Cents)

	1967	1966	1965	1964	1963
GROSS INCOME	100.0	100.0	100.0	100.0	100.0
Lease operating expenses	24.0	24.4	23.0	19.7	19.8
General & administrative expenses	8.9	8.3	9.1	8.7	9.1
Interest	9.8	9.4	8.9	6.6	7.2
Other	.2	.7	.9	.1	.4
CASH FLOW	57.1	57.2	58.1	64.9	63.5
Lease rentals, dry holes and leases surrendered	11.1	9.4	12.7	13.0	11.5
Depletion and depreciation	20.5	23.1	21.6	30.0	31.3
NET PROFIT	25.5	24.7	23.8	21.9	20.7

BALANCE

ASSETS

	1967	1966
CURRENT		
Cash	$ 455,475	$ 367,445
Accounts receivable	625,164	345,785
Inventories of crude oil, at cost	18,526	26,050
Oil well supplies at average cost	139,425	122,800
Prepaid expenses	2,103	4,373
	1,240,693	866,453
INVESTMENT IN OTHER COMPANIES — at cost, (no quoted market value)	71,826	431,572
ADVANCES AND DEPOSITS	41,033	40,355
PROPERTY AND EQUIPMENT (Note 1)		
Developed oil and gas properties less accumulated depletion and depreciation (1967 — $5,503,244; 1966 — $4,807,419)	14,858,340	12,168,990
Less unpaid production payments	5,988,505	4,585,451
	8,869,835	7,583,539
Undeveloped leases and royalties	2,883,576	3,167,358
Other equipment less accumulated depreciation (1967 — $786,128; 1966 — $758,077)	257,911	374,542
	12,011,322	11,125,439
	$13,364,874	$12,463,819

See accompanying notes.

SHEET DECEMBER 31, 1967

(with comparative figures at December 31, 1966)

LIABILITIES

	1967	1966
CURRENT		
Accounts payable and accrued expenses	**$ 381,267**	$ 327,382
Notes payable within one year	**134,800**	134,800
	516,067	462,182
5% NOTES PAYABLE (Note 2)	**269,599**	404,398
SHAREHOLDERS' EQUITY (Notes 3 and 4)		
Share capital:		
Authorized—9,000,000 shares of a par value of $1 each		
Issued—8,519,682 (1966 — 8,505,323)	**8,519,682**	8,505,323
Paid-in surplus	**500,889**	475,043
Earned surplus	**3,558,637**	2,616,873
	12,579,208	11,597,239
	$13,364,874	$12,463,819

Newton T. Bass *Director*

John R. McMillan *Director*

STATEMENT OF PROFIT AND LOSS

YEAR ENDED DECEMBER 31, 1967

(with comparative figures for the year ended December 31, 1966)

	1967	1966
INCOME		
Oil and gas revenue	**$3,642,576**	$3,275,740
Other	**46,755**	52,670
	3,689,331	3,328,410
OPERATING EXPENSES		
Lease operating expenses	**883,806**	810,588
General and administrative expenses (Note 5) . .	**327,102**	279,249
Depletion and depreciation	**757,275**	770,588
	1,968,183	1,860,425
	1,721,148	1,467,985
OTHER CHARGES		
Non-producing lease rentals	**146,067**	152,094
Dry holes and abandonments	**213,905**	95,594
Leases surrendered	**50,275**	66,578
	410,247	314,266
Interest — long-term	**361,064**	311,386
Other expense	**8,073**	20,785
	779,384	646,437
NET PROFIT (Note 6)	**$ 941,764**	$ 821,548

See accompanying notes.

ANALYSIS OF SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for the year ended December 31, 1966)

	Statement of			
	Paid-in Surplus		*Earned Surplus*	
	1967	*1966*	*1967*	*1966*
Balance at beginning of year .	$475,043	460,697	2,616,873	1,795,325
Add:				
Stock issued to employees under stock option plan (Note 3)	25,846	14,346		
Net profit for the year . .			941,764	821,548
Balance at end of year . .	$500,889	475,043	3,558,637	2,616,873

See accompanying notes.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Fargo Oils Ltd. as of December 31, 1967 and the statements of profit and loss, paid-in surplus, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 13, 1968.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1967

1. The cost of developed properties includes the unpaid balances of amounts payable solely out of production. Since the obligations are considered as liens against the properties and since there is no direct liability to the Company these amounts are shown as deductions from the property accounts on the balance sheet. It is the Company's consistent policy to expense all lease rentals. Property and equipment is carried at cost except for certain petroleum and natural gas properties and undeveloped acreage which were revalued as of January 1, 1962.
2. The 5% notes payable are unsecured and are repayable in equal instalments of the principal amount on the first day of July in each of the years 1968 to 1970.
3. During the year the Company issued 14,359 shares (1966 — 7,970 shares) under an employees' stock option plan for a cash consideration of $1.00 per share. The excess of the market value at December 31, 1966 over the price paid was charged to employee benefits. The Company set aside 75,000 shares for the plan and at December 31, 1967 a total of 64,767 shares had been issued.
4. As of December 31, 1962 the Company appropriated an amount of $10,751,281 from paid-in surplus to be applied against the reported deficit at that date. This transaction was approved by the shareholders.
5. The aggregate direct remuneration paid to directors and senior officers by the Company was $72,000.
6. No provision has been made for taxes on income since the Company has expended more than sufficient amounts on drilling and exploration costs which may, for income tax purposes, be applied against the reported earnings so that there are no income taxes payable.

SYNOPSIS OF ACCOUNTING PRACTICE

Costs of unproductive wells are charged against income as incurred.

Lease rentals are charged against income as incurred.

Costs of geological and geophysical work are charged against income as incurred, except on Reservations and Permits, where such costs are capitalized.

Acquisition costs of all lands and leases are initially capitalized.

Acquisition costs of productive lands and leases together with costs of productive wells thereon are capitalized and amortized annually on a unit of production basis. This amortization is determined by applying to such costs the percentage that oil produced during the year bears to the estimated reserves.

Costs of undeveloped properties are carried in the accounts until such time as the properties become productive or are abandoned. The costs of abandoned properties are written off at the time of abandonment.

The costs of plant and equipment (other than lease and well equipment) are depreciated on a straight line basis.

TEN YEAR SUMMARY

FINANCIAL	1967	1966	1965
Gross Income	$3,689,331	3,328,410	2,877,469
Cash Flow	$2,109,286	1,906,402	1,707,510
Dry Holes, Abandonments and Lease Rentals	$ 410,247	314,266	373,135
Depletion, Depreciation and Amortization	$ 757,275	770,588	634,139
Net Profit (Loss)	$ 941,764	821,548	700,236
Expenditures on Exploration and Development	$3,018,216	1,388,174	1,385,255
Working Capital	$ 724,626	404,271	526,691
Per Share Outstanding			
Gross Income	$ .43	.39	.34
Cash Flow	$ .25	.22	.20
Net Profit	$ .11	.10	.08
OPERATING			
Oil and Gas Liquid Sales — Barrels	1,563,204	1,479,785	1,248,730
Gas Sales — Mcfs.	3,049,742	2,725,004	2,789,337
Wells Drilled — Gross (Net)			
Oil	25 (14)	37 (17)	45 (28)
Gas	5 (1)	3 (1)	3 (1)
Dry	19 (9)	12 (5)	12 (3)
Total	49 (24)	52 (23)	60 (32)
Wells Owned — Gross (Net)			
Non Unit — Oil	303 (196)	285 (185)	340 (229)
— Gas	86 (26)	81 (25)	71 (21)
Contributed to Units — Oil	138 (86)	128 (79)	45 (29)
— Gas	12 (5)	10 (4)	9 (4)
Total of Wells Owned — Gross (Net)	539 (313)	504 (293)	465 (283)
Acreage Owned			
Gross Acres	2,174,874	2,352,788	2,137,549
Net Acres	677,616	766,587	639,166
OTHER			
Shares Outstanding	8,519,682	8,505,323	8,497,353
Number of Shareholders	15,824	15,299	15,759

FINANCIAL AND OPERATING STATISTICS

1964	1963	1962	1961	1960	1959	1958
,531,892	2,299,671	2,084,305	1,672,442	1,860,708	2,120,442	2,021,264
,699,451	1,536,545	1,226,818	872,801	1,244,105	1,134,882	1,026,689
340,388	277,716	230,884	326,371	297,094	157,764	182,409
784,127	757,938	700,869	961,704	1,027,705	1,298,869	1,144,830
574,936	500,891	295,065	(415,274)	(80,694)	(321,751)	(300,550)
,591,362	885,183	702,383	585,808	908,241	1,044,234	2,147,779
,502,008	1,255,583	338,047	216,693	395,303	420,870	526,257
.30	.27	.25	.20	.22	.25	.24
.20	.18	.14	.10	.15	.13	.12
.07	.06	.03	(.05)	(.01)	(.04)	(.04)
1,153,295	1,075,613	936,493	804,031	857,312	966,361	936,238
1,758,945	1,886,196	1,937,442	1,638,000	1,613,770	2,137,713	—
69 (29)	36 (21)	21 (9)	33 (22)	27 (19)	23 (14)	42 (23)
1	2	5 (2)	7 (3)	10 (3)	4 (1)	8 (3)
17 (7)	11 (5)	20 (5)	11 (7)	19 (10)	9 (4)	13 (6)
87 (36)	49 (26)	46 (16)	51 (32)	56 (32)	36 (19)	63 (32)
304 (202)	258 (193)	318 (192)	294 (172)	480 (192)	499 (194)	340 (186)
71 (18)	76 (17)	80 (23)	76 (20)	77 (20)	66 (18)	59 (20)
45 (26)	41 (24)	36 (23)	11 (6)	6 (3)	6 (3)	
8 (3)	3 (1)	3 (1)	3 (1)			
428 (249)	378 (235)	437 (239)	384 (199)	563 (215)	571 (215)	399 (206)
1,637,656	1,613,747	1,694,070	2,248,575	2,692,693	2,844,934	2,828,309
646,771	542,869	628,983	798,853	904,303	900,013	949,364
8,490,250	8,482,588	8,475,197	8,470,525	8,462,459	8,457,414	8,454,915
14,901	15,906	17,435	17,333	17,846	17,620	17,696

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